



IDAHO

DEPARTMENT OF FINANCE

C.L. "BUTCH" OTTER
Governor

GAVIN M. GEE
Director

May 9, 2017

RE: Business Activities in Idaho

Dear :

The State of Idaho Department of Finance (the "Department") is in receipt of your correspondence dated March 3, 2017 where on behalf of their client, is requesting guidance related to compliance with the Idaho Money Transmitters Act ("IMTA") for the business activities being operated by. The Department has reviewed the information submitted by you and we provide the following explanations related to each of the business activities.

1) The Merchant Acceptance Service (Payment Accept Service) - As you state in your letter, the product operates in the same manner as a *"traditional credit card processing service, but for bitcoin base payments."* You have also disclosed the conversion of bitcoins for this service is to support and fund the company's own treasury operation and not as an exchange intermediary. Although the product may have the appearance of a traditional credit card processing to complete transactions, your website states:

"collects and deposits all payments processed from the previous day directly to your bank or bitcoin wallet, according to your settlement preference. issues bank settlements for "Starter Plan" merchants on a weekly basis."

The Department's understanding is for those merchants that join under the "Starter Plan" their bitcoins are held for one week before receiving bank settlement for the bitcoin transactions.

The IMTA §26-2902(11) defines money transmission to include "the sale or issuance of payment instruments or engaging in the business of receiving money for transmission or the business of transmitting money...by any and all means.." Thus by holding funds until settlement, this product would meet the requirements of licensure under the IMTA.

2) Software Wallet (aka CoPay) - This product appears to be an electronic "app" that customers may download to store their own inventory of bitcoin, i.e. a bitcoin wallet.

This product would not require licensure under the IMTA as this is a customer wallet containing only the customer's inventory of bitcoin.

SECURITIES BUREAU

800 Park Boulevard, Suite 200, Boise, ID 83712

Mail To: P.O. Box 83720, Boise ID 83720-0031

Phone: (208) 332-8004 Fax: (208) 332-8099

www.finance.idaho.gov

Business Activities in Idaho

May 4, 2017

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3) Bitcoin Payout - You describe this product as in the piloting phase and enables cross board payment disbursements in bitcoin. Companies wishing to offer their employees the option to take a portion of their after-tax salary in bitcoin could use the Bitcoin Payout application. By using this application, a company submits fiat currency from their payroll to . holds the funds and then submits virtual currency to the employee via the application.

We understand the sender submits fiat currency to the and then distributes bitcoins to the intended recipient's bitcoin wallets. This business activity meets the definition of a money transmitter under the IMTA §26-2902(11).

4) Prepaid Visa - As your letter indicates has partnered with (' ') a FDIC insured bank in New York State to serve as the distributor/marketer or as the co-brand partner. As you have disclosed, pre-funds a balance with to support the prepaid cards, then as the pre-funded account diminishes, replenishes the account as needed. then assumes the legal responsibility for issuing the card, establishing and maintaining the account balance for the cards and processing the transactions initiated with the card numbers.

This product would not require licensure under the IMTA, as the IMTA provides an exemption for "banks....or mutual banks organized under the laws of the any state or the United States provided they do not issue or sell...through authorized delegates who are not banks.

Based solely upon the facts outlined in your correspondence, the Department is of the opinion that two of the business models presented by meet the definition of a money transmitter under the IMAT and that a license would be required¹.

Should your business plan deviate from the facts outlined in the correspondence, it is possible that the Department would take a different position than the one noted in this letter.

If you would like more information on money transmitting licensing in Idaho, you can visit the Department's web site <http://www.finance.idaho.gov>. If you have questions or comments on this matter, please contact the undersigned at jeff.flora@finance.idaho.gov or telephone at (208)332-8045.

Sincerely,

Jeff Flora
Financial Examiner / Investigator
Idaho Department of Finance
Securities Bureau

¹ This decision is based solely on the unique circumstances of the activity described and is not intended to serve as precedent for any other money transmitter or similarly situated person or entity. This letter should not be construed as a finding that licensure is not required in other jurisdictions where other users or recipients may reside.

RECEIVED

MAR 17 2017

DEPARTMENT OF FINANCE
STATE OF IDAHO

March 3, 2017

Norman Real
Idaho Department of Finance
800 Park Blvd, Ste 200
Boise, ID 83712

Via E-mail and FedEx

Re: Business Activities in Idaho

This letter to the Idaho Department of Finance ("the Department") is on behalf our client, (" " or the "Company") a Delaware corporation that currently has its principal United States office at was incorporated on June 4, 2012 and registered with FinCEN on November 15, 2016. The Company provides several business-to-business ("B2B") services as a payment processor allowing merchants to accept the decentralized cryptocurrency, Bitcoin.

In an effort to ensure full adherence to the money transmitter license requirements of Idaho, this letter requests confirmation of our understanding that our client's business activities are exempt from licensure as an Idaho Money Transmitter based on Title 26, Chapter 29 Section 26-2902.

's Business Activities:

1. The Merchant Acceptance Service (the "Payment Acceptance Service")

's Payment Acceptance Service operates in the same manner as a traditional credit card processing service, but for bitcoin based payments. Through the Payment Acceptance Service, merchants (each, a "Merchant") select to facilitate the Merchant's acceptance of bitcoin as a method of payment. 's advanced features, coupled with its customer service and bank settlement options allow Merchants to more easily accept bitcoin as a form of payment without having to interact with the underlying bitcoin protocol.

The Payment Acceptance Service is strictly limited to use by Merchants that satisfy 's Merchant Terms of Use (the "Terms"). does not have any contracts or relationships with consumers or shoppers. Consumers' only interaction with the Payment Acceptance Service is through a Merchant's point of sale ("POS"), whether on the Merchant's website or at a physical store, that facilitates a shopper's purchase transaction using bitcoin as a payment method. As offers no consumer-facing services, consumers cannot engage to provide bill payment services (e.g., transmitting funds to a particular creditor of the consumer's choosing), remit bitcoins on behalf of the consumer to a particular address, or store the consumer's bitcoin in a fiduciary capacity (i.e., like a bitcoin bank or a financial institution hosted wallet).

The Payment Acceptance Service is also strictly limited to bitcoin as a payment method. does not process payment transactions initiated in fiat currency (i.e., U.S. dollars or "USD") or otherwise receive

any fiat currency from consumers. The Payment Acceptance Service does, however, allow Merchants to receive settlements in either bitcoin, USD, or some mix of bitcoins and USD (e.g., a 50/50 mix) for the sale of their goods or services. Merchants seeking to integrate the Payment Acceptance Service must agree to [redacted]'s Terms, pursuant to which each Merchant authorizes [redacted] to receive and settle bitcoin payments from shoppers on behalf of the Merchant. [redacted] undertakes the conversion of bitcoins it receives from consumers in the provision of the Payment Acceptance Service on third party exchanges as the principal in order to support and fund its own treasury operations, and not as an exchange intermediary. That is to say, where [redacted] settles a transaction with a Merchant in a supported fiat currency, [redacted] does not immediately, and as a matter of course, sell the bitcoins received in a particular transaction in order to later remit the resulting fiat currency to that particular Merchant. Rather, [redacted] will periodically, and independent of the timing of each transaction, sell the bitcoins it has received as needed in order to manage its treasury operations and ensure its settlement accounts are appropriately funded to affect settlement in a Merchant's preferred currency.

2. Software Wallet

On June 3, 2015, [redacted] launched a free, open source, multi-signature, software wallet called Copay. Copay functions as a self-hosted bitcoin wallet where the users are in full control of their bitcoin private keys. Copay does not function as an account where [redacted] or other third parties serve as financial intermediaries or custodians of users' bitcoins or keys. Due to the open source nature of the software, users may opt to run their own versions of Copay. [redacted] does not have access to a user's private keys. Instead, such keys are generated locally on the users' devices, and encrypted and backed up by the users themselves on a platform of their choice. Users can download and run the software themselves which means that [redacted] will not be a service provider for Copay. In other words, [redacted] will not hold, store, or transmit funds on behalf of users of the Copay wallet.

3. Bitcoin Payout

Since late 2014, [redacted] has explored certain expansionary services to enhance its suite of bitcoin applications for businesses. [redacted] is currently piloting one such service which enables cross border payment disbursements in bitcoin called Bitcoin Payout. Bitcoin Payout solves a need for companies that wish to pay their employees, contractors, vendors, affiliates, or commissioned representatives around the world. Making these payments with bitcoin is more efficient and cost effective than using the correspondent banking system, much like sending a mass email is more efficient than sending many letters through the Postal Service.

The Bitcoin Payout application can be used by companies wishing to offer their employees the option to take a portion of their after-tax salary in bitcoin, similar to how employees can receive a portion of their after-tax salary to a savings account or an IRA. A payroll service provider can also integrate [redacted]'s application to offer it as an option to the employers and employees using the payroll provider's services.

A description of the Bitcoin Payout funds flow is as follows:

- First, recipients sign up with Senders to receive payment in bitcoin to a bitcoin wallet of the Recipient's choice;
- Second, senders provide [redacted] a batch of bitcoin payout addresses and amounts;
- Third, senders send USD via ACH to [redacted]'s USD bank account;

- Last, [redacted] remits bitcoin per the amounts specified by the Senders to the Recipients' bitcoin wallets.
- Additionally, to obtain the bitcoin, [redacted] may use bitcoin from its existing bitcoin reserves, or [redacted] may purchase the bitcoin on an exchange.

4. Prepaid Visa

On May 3, 2016, [redacted] announced the [redacted] Prepaid Visa Card by partnering with [redacted] (" [redacted] "), a FDIC- insured bank in New York and Visa member, along with [redacted], the program manager. [redacted] is serving as the distributor/marketer or as the co-brand partner similar to United Airlines for the MileagePlus Explorer Card issued by Chase Bank USA. [redacted] is the issuing bank of the [redacted] Prepaid Visa Card, meaning that cardholders will have a traditional bank account at [redacted]. In this transaction, [redacted] is the merchant and [redacted] is still facilitating a merchant processing function. [redacted] sends an invoice (using [redacted]'s API) to the buyer (the customer with a bitcoin wallet) and the customer pays the invoice using bitcoin. [redacted] then transmits USD into the buyer's [redacted] Prepaid Visa Card. [redacted]'s position is that it does not meet the definition of a "money transmitter" in this transaction since [redacted] is the entity transmitting USD to the prepaid card.

Kindly note, should any of the aforementioned information change, or if [redacted] alters its business model by transmitting fiat currency or modifies its services in any form, [redacted] will immediately notify the Department and request guidance. Notwithstanding, based on the aforementioned, [redacted] seeks the Department's opinion on whether a money transmitter's license is required pursuant to Idaho requirements or otherwise should it seek to decide to do business in Idaho.

Please feel free to contact me at [redacted] or via my e-mail at:

Thank you for your kind attention in this matter.

Yours truly,

Attachment

CC: